ECONOMIC COMMENTARY

The Weak Canadian Dollar and Strong U.S. Economy Benefit Alberta Exporters

June 30, 2015

Highlights:
International exports are one of the main drivers of the Alberta economy and the majority of Alberta exports are destined for the U.S. Therefore, the recent weakening of the Canadian dollar and the strong U.S. economy should benefit those Alberta sectors that are oriented towards exports to the U.S.

Alberta
Government

In 2014, Alberta's merchandise exports to the U.S. totaled $110 billion, up 20% from the 2013 value of $91 billion. The U.S. accounted for 90% of the total value of Alberta's international merchandise exports that year, the largest share on record. Back in 1994 exports to the U.S. accounted for 79% of Alberta exports. Therefore, trends in the U.S. economy and in the Canada – US exchange rate have a big impact on Alberta's exports and therefore also on the Alberta economy: international exports account for about 40% of Alberta's Gross Domestic Product (GDP). The focus of this commentary will be on examining which Alberta industries stand to gain the most from these two factors.

Since mid-year 2014 the Canadian dollar has lost about 15% against the U.S. dollar. This would translate into an 18% gain for those Alberta exports that are priced in U.S. dollars and will allow other exporters that price their products in Canadian dollars to become more competitive and sell more product into the U.S. Canada's currency is closely tied to crude oil prices (Chart 1). The current weakness in crude oil prices can therefore be expected to keep Alberta's exchange rate low.

Chart 1
Falling crude oil prices lead to lower Canadian dollar

Sources: Bank of Canada and US Energy Information Administration

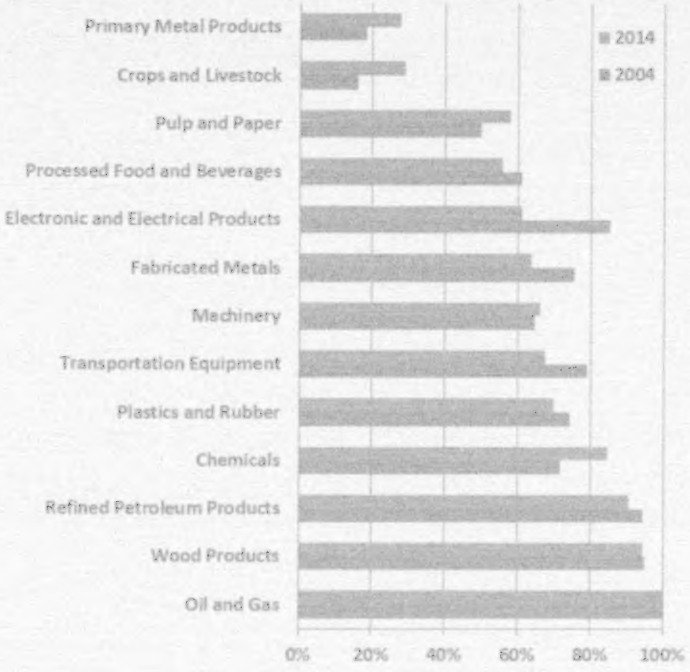
A strong U.S. economy will lead to increased U.S. demand for imported goods and services. In 2014, the US economy was one of the main drivers of global economic growth, expanding by 2.4%. The outlook for the U.S. economy remains rosy – in its latest report Moody's Analytics is forecasting a similar expansion in 2015, followed by strong growth of at least 3% in both 2016 and 2017, which suggests that the U.S. will become an even larger driver of the global economy.

We start with limiting this analysis to those Alberta industries which have had at least $100 million in exports to the U.S. during the past five years:

1. Oil and gas ($90 billion in exports to the US in 2014)
2. Chemicals ($7.1 billion)
3. Processed food and beverages ($2.2 billion)
4. Machinery ($2 billion)
5. Crops and livestock ($1.6 billion)
6. Refined petroleum products ($1.5 billion)
7. Pulp and paper ($985 million)
8. Wood products ($933 million)
9. Electronic and electrical products ($584 million)

10. Transportation equipment ($545 million)
11. Fabricated metals ($512 million)
12. Primary metals ($312 million)
13. Plastics and rubber ($280 million)

Chart 2
Exports to the US as a Share of a Sector's Total Exports



For 11 of these 13 sectors, the U.S. accounts for more than 50% of Alberta's total exports (Chart 2). For the oil and gas sector nearly all exports go to the U.S. and for the refined petroleum products, chemicals and wood products sectors more than 80% of exports are destined there. Less than 30% of exports in the primary metals and crops and livestock sectors go to the U.S.: most grains and oilseeds move to off-shore markets as do primary metals such as cobalt and nickel.

Between 2004 and 2014, the U.S. export share increased for primary metals (from 18% in 2004 to 28% in 2014), crops and livestock (from 16% to 29%), pulp and paper (from 50% to 58%), and chemicals (from 72% to 84%). For transportation equipment, fabricated metals and electronic and electrical products the U.S. export share has fallen significantly during the 10-year period.

In Chart 3 international exports are presented as a share of total revenues. The top ranked sector according to this measure would be transportation equipment with an export intensity (exports as a share of a sector's total revenues) of 129%. However, this share is obviously overstated as it implies that exports far exceed actual revenues[1]. Other sectors with high export intensities include pulp and paper (98%), oil and gas (81%), primary metals (72%[2]), chemicals (65%), electronic and electrical products (63%), crops and livestock (45%) and machinery (38%).

[1] This problem can be traced back to its largest sub-sector, aerospace equipment, where exports exceed revenues by a ratio of at least two to one. Nevertheless, this sector still has a high export intensity ratio.
[2] This intensity ratio is probably also overstated as exports include large volumes of nickel and cobalt which account for a small share of revenues.

Chart 3
International Exports as a Share of a Sector's Revenues in 2014

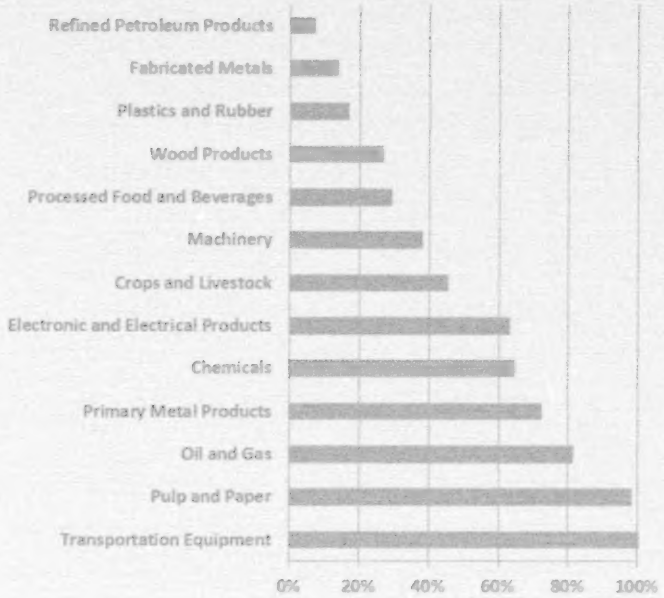
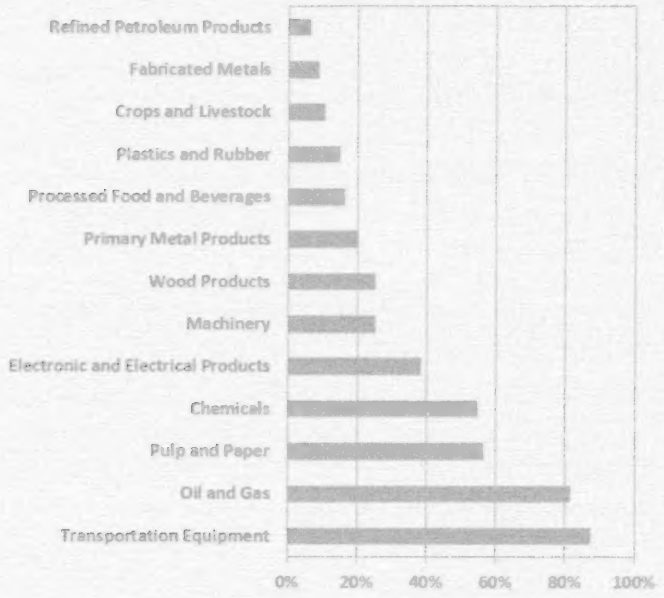


Chart 4
US Exports as a Share of a Sector's Revenues in 2014



In Chart 4 we combine Charts 2 and 3 in order to show exports to the U.S. as a share of each sector's total revenues. Again, transportation equipment has the highest, albeit overstated, U.S. export intensity (U.S. exports as a share of revenues), followed by oil and gas (81%), pulp and paper (57%), chemicals (55%), electronic and electrical products (38%), machinery (25%) and wood products (25%).

We have dropped the oil and gas sector from the above list as the weak dollar is largely the result of weak oil and gas prices which in turn is related to rising U.S. oil and gas production. Rising U.S. production has already caused Alberta gas exports to decline and could eventually also threaten our oil exports.

In summary, the following sectors stand to benefit the most from a weak Canadian dollar (vis-à-vis the U.S. dollar) and a robustly growing U.S. economy:

- Transportation equipment
- Pulp and paper
- Chemicals
- Electronic and electrical products
- Machinery
- Wood products